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Introduction

In advance of the referendum on the UK's membership of the European Union (EU), this Brief considers the differences in how the UK's constituent regions and nations interact with other EU countries, focusing upon trade in goods. The regional dimension of the UK/EU relationship has received relatively little attention in the public debate around the implications of 'Brexit', yet the evidence examined here suggests that the notion of whether the UK will be 'better off' or 'worse off' as a result of voting to exit or remain within the EU is too simplistic. An examination of the different trade relationships that different UK regions and nations have with the EU helps us to consider both *how* the UK will be affected by Brexit, and *who* will be most affected. In particular, the Brief reflects upon the possible implications of Brexit for the policy agendas around 'rebalancing' and 'the Northern Powerhouse', which are predicated upon a resurgence of manufacturing industries in the North of England.

Background

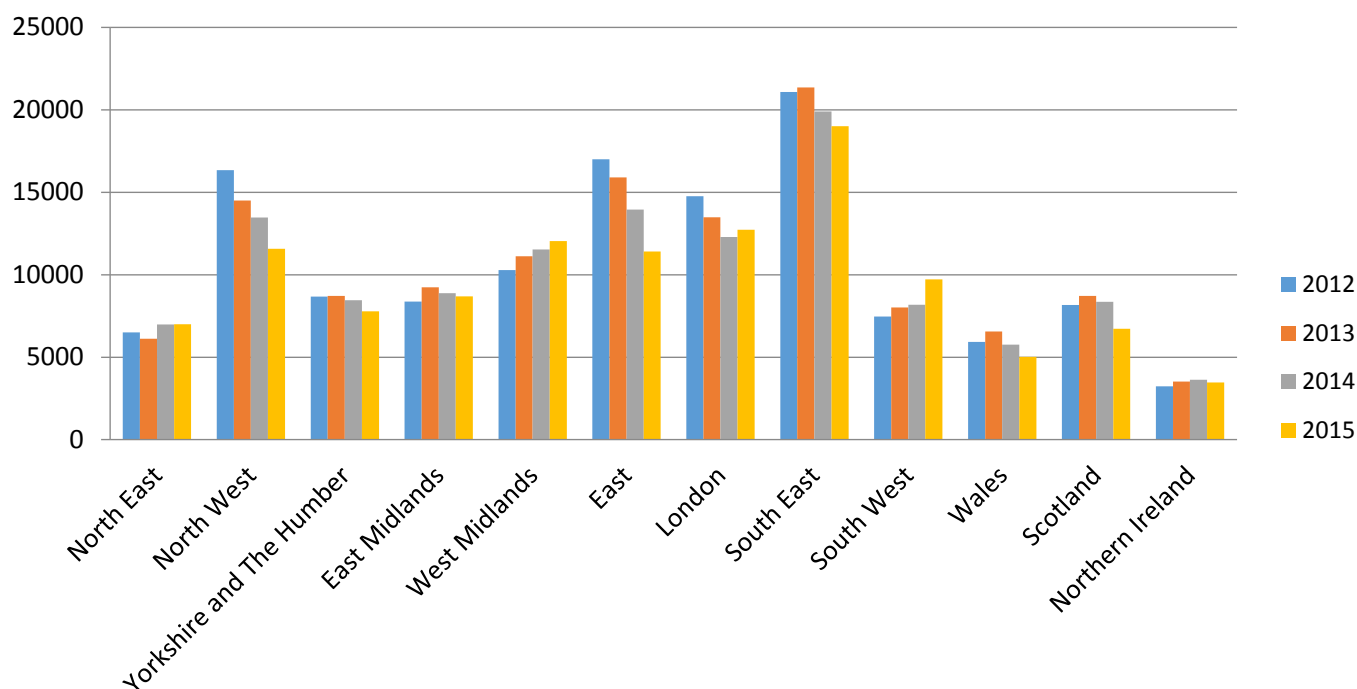
- There are significant differences in the composition of local economies across the UK's regions and nations, which give rise to longstanding geographical inequalities in economic outcomes across the UK (in terms of output, employment, earnings, deprivation, etc.).
- These differences manifest in different trade patterns across the UK's regions and nations, including trade with the EU.
- As such, any decision by the UK to leave the EU is bound to affect the UK's regions and nations differently. This is not to suggest that Brexit would exacerbate regional inequalities – the opposite may be the case in practice – but rather that the potential implications of leaving the EU for the UK economy cannot be fully understood without considering the differential geographical impact.
- Yet there has been remarkably little public debate on how Brexit (or indeed a decision to retain EU membership) would affect different parts of the UK economy in different ways.
- There are two further issues worth noting here, by way of establishing the political and economic context within which differential UK/EU trade relationships function. Firstly, the UK as a whole has a significant trade deficit, due largely to a significant deficit in trade in goods with the EU. The sub-national manifestations of this trend are highly relevant to understanding how it might be affected by Brexit.
- Secondly, the coalition and Conservative governments have been committed ostensibly to 'rebalancing' the UK economy in sectoral and geographical terms, in part by seeking to boost manufacturing industries in the North of England. Considering how Brexit might impact manufacturing exports from regions and nations outside London and the South East is vital to understanding how leaving the EU will influence the prospects for more balanced and sustainable growth in the UK.

- It should be noted that regional trade data is only available for trade in goods (principally manufactured products and commodities). This enables the Brief to reflect upon specific implications for manufacturing exports, but data on regional differences in services trade with the EU is clearly required to create a more detailed picture.
- However, the Analysis section below briefly discusses services trade, after data on goods trade is presented in the Evidence section.

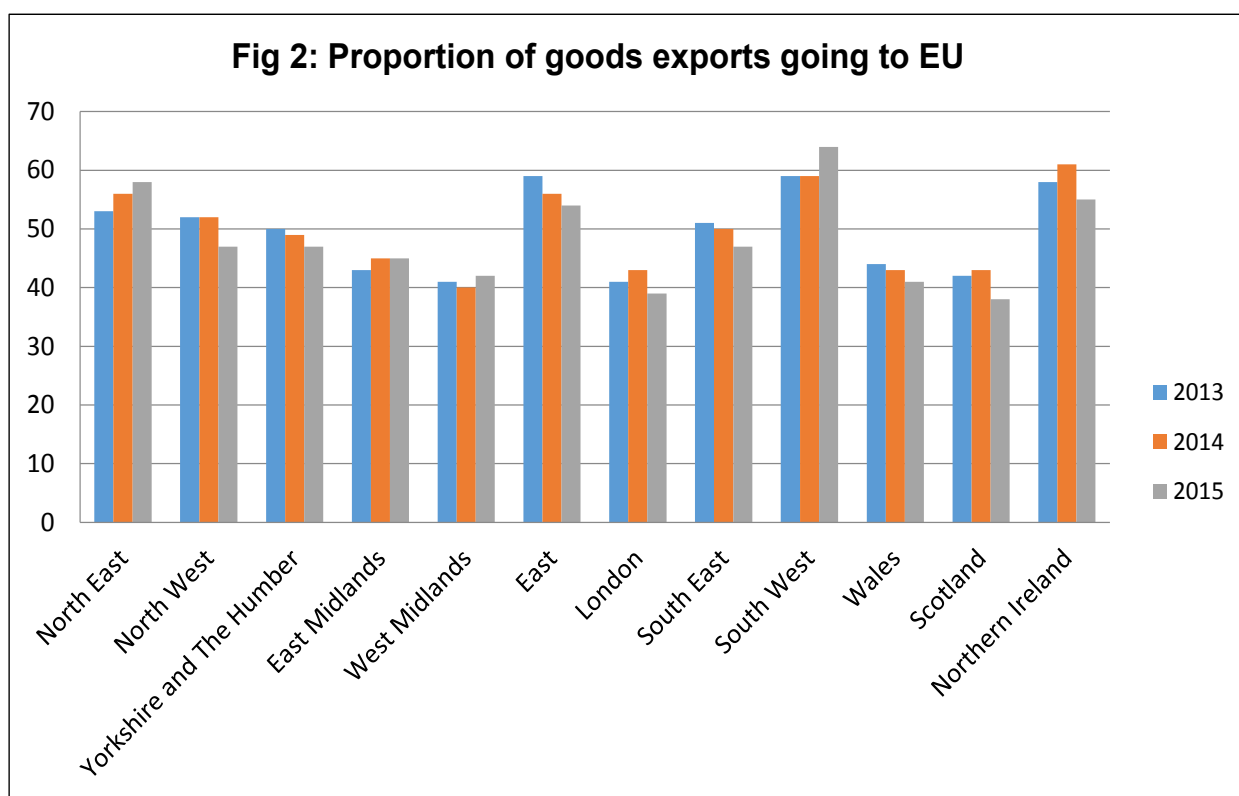
Evidence

- As Figure 1 demonstrates, the regions of the South of England export more goods in absolute terms to the EU than those in the North of England and in the devolved nations. The main exceptions are the North West, which exports goods to the EU at comparable levels to the Southern regions (including the East of England), and the South West, which exports relatively few goods to the EU.
- It is noticeable that the regions that tend to export most goods to the EU have generally seen the value of these exports decline over the past few years – although trade volumes are inherently volatile, not least due to currency fluctuations. It is also worth noting that the devolved nations export far fewer goods to the EU than those of the South and Midlands, and the North West region.

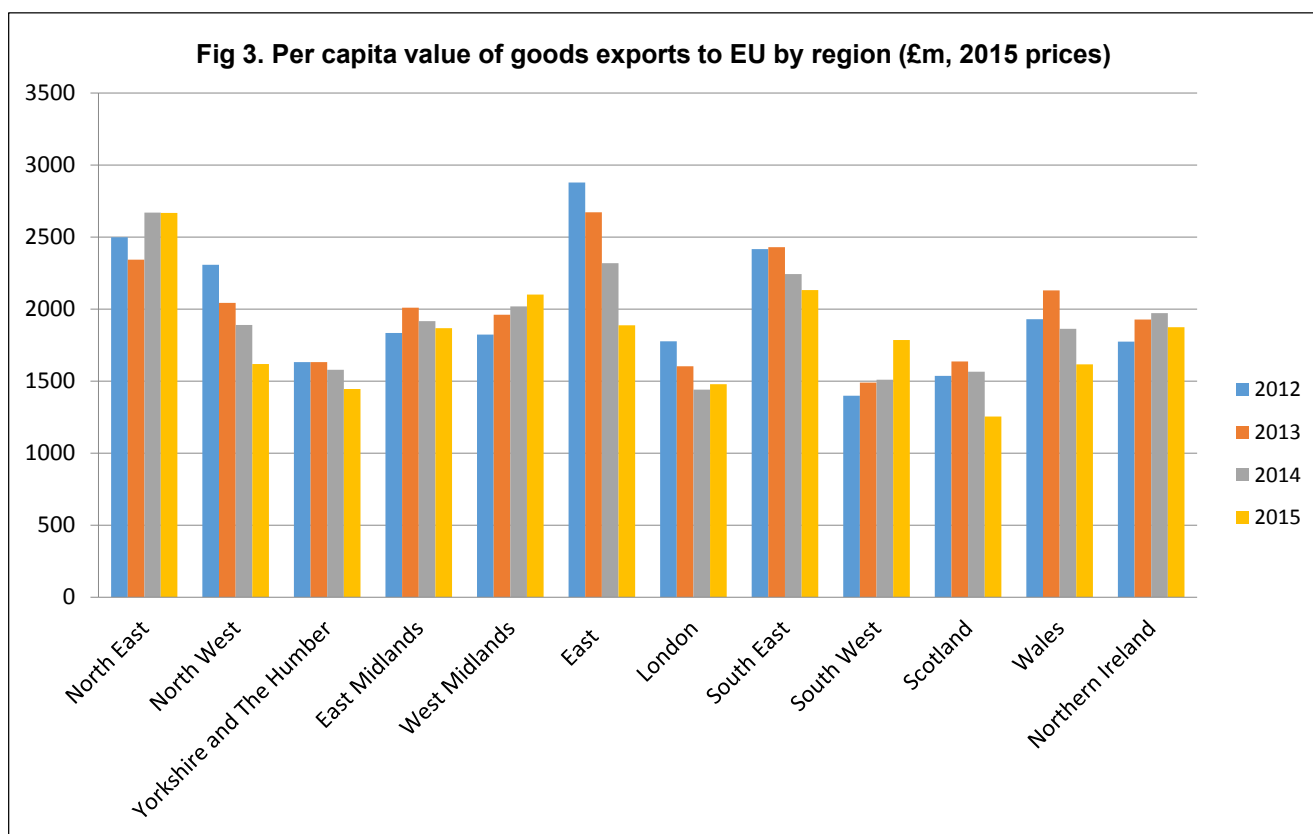
Fig 1: Value of goods exports to EU by region (£m, 2015 prices)



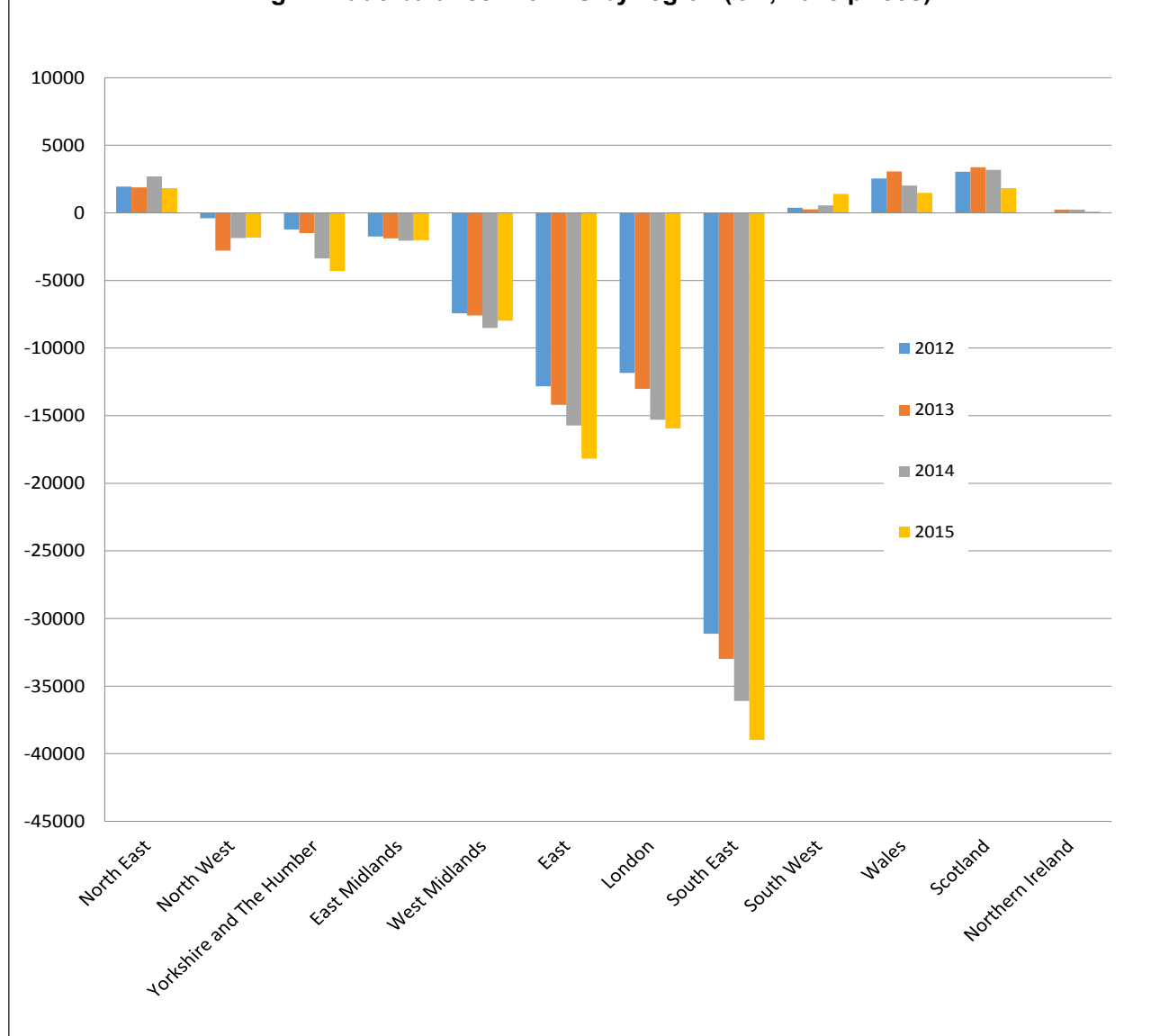
- **However, four further questions need to be asked. Firstly, how does the export of goods to the EU compare with exports to the rest of the world, across the different regions and nations of the UK?**
- Figure 2 demonstrates some striking results in this regard. For instance, the North East is far more dependent in terms of goods exports on the EU than on the rest of the world, despite exporting relatively few goods to the EU compared to other regions. The same applies to the South West and Northern Ireland.
- London, Scotland and Wales are less dependent in terms of goods exports on the EU than other regions, and Yorkshire is more dependent than most, despite exporting fewer goods in total to the EU than, for instance, the Midlands regions.



- **Secondly, how do goods exports from different UK regions and nations to the EU compare with exports to the rest of the world when measured on a per capita basis, that is, when differences in population are taken into account?**



- Figure 3 shows that the North East now actually exports more goods to the EU than any other region, measured per head of population. Wales also exports significantly more goods on this measure than suggested by the results for total value of goods exports.
- Figure 3 also demonstrates that some regions (mainly the North East, South West and West Midlands) have seen the value of goods exports to the EU rise over the period studied; while it may be correct to claim that trade with the EU has become less important to the UK overall, this clearly does not apply to every region.
- Thirdly, what does the trade relationship between the EU and the UK's regions and nations look like once goods imports are also taken into account? This information helps us to understand more broadly the extent of integration between UK regions and the EU.**
- Figure 4 demonstrates significant differences in this regard. The North East is the only English region to have consistently had a substantive goods trade surplus with the EU in recent years. Wales and Scotland both also have a goods trade surplus with the EU.
- The North West and Yorkshire have only small goods trade deficits with the EU, which contrasts with the very significant goods trade deficits for the East of England, London, and particularly the South East.

Fig 4. Trade balance with EU by region (£m, 2015 prices)

- **Fourthly, are there regional differences between the types of goods being exported to the EU? This is important given that different types of goods may have different tariff rates.**
- Figure 5 shows regional differences in the value of goods exported to the EU in 2015, focusing on the most important sectors. Figure 6 presents the same data on a per capita basis.
- There are very significant regional differences in this regard, particularly for the export of chemicals, and vehicles and other transport equipment. Some regions, notably the North East, South West and, to a lesser extent, the West Midlands rely heavily on exports of vehicles and transport equipment.
- Similarly, some regions rely heavily on exports of chemicals; this applies, again, to the North East, but also, to a lesser extent, the North West.

Fig 5. Value of exports to EU by sector and region, 2015
(selected goods, £m)

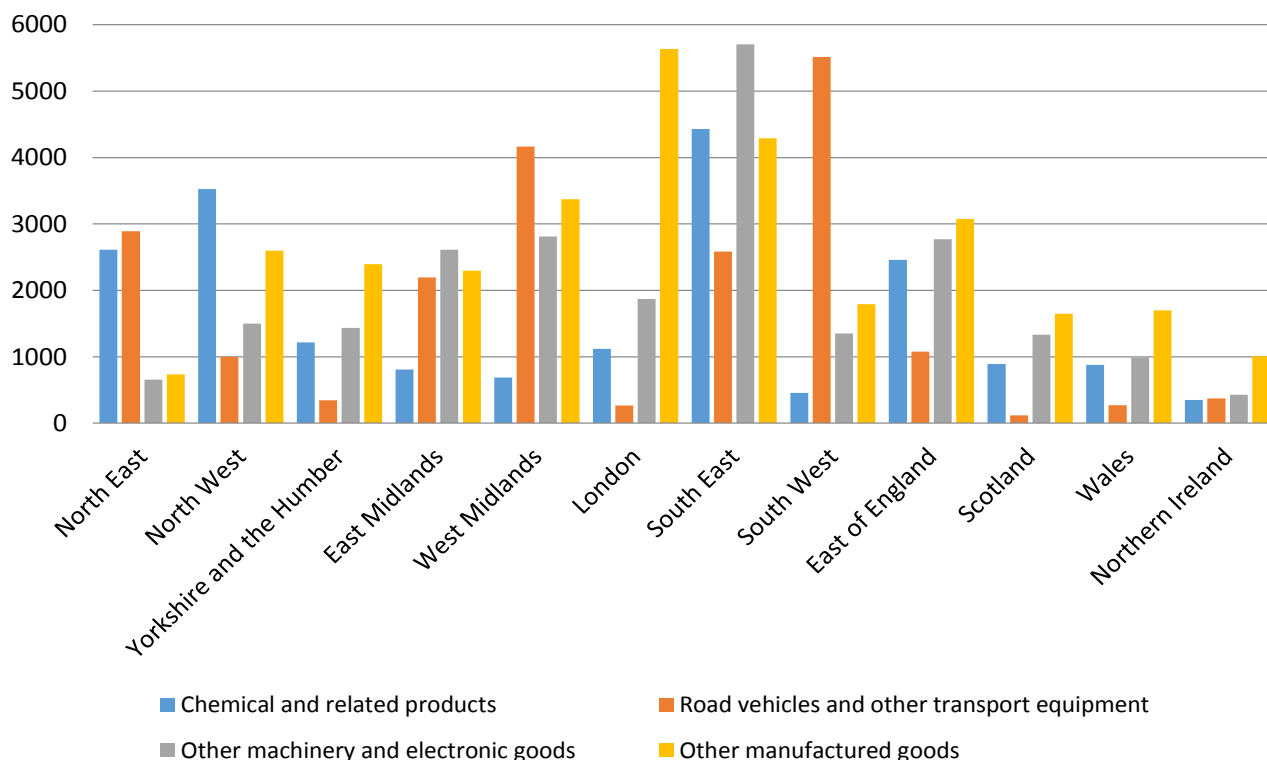
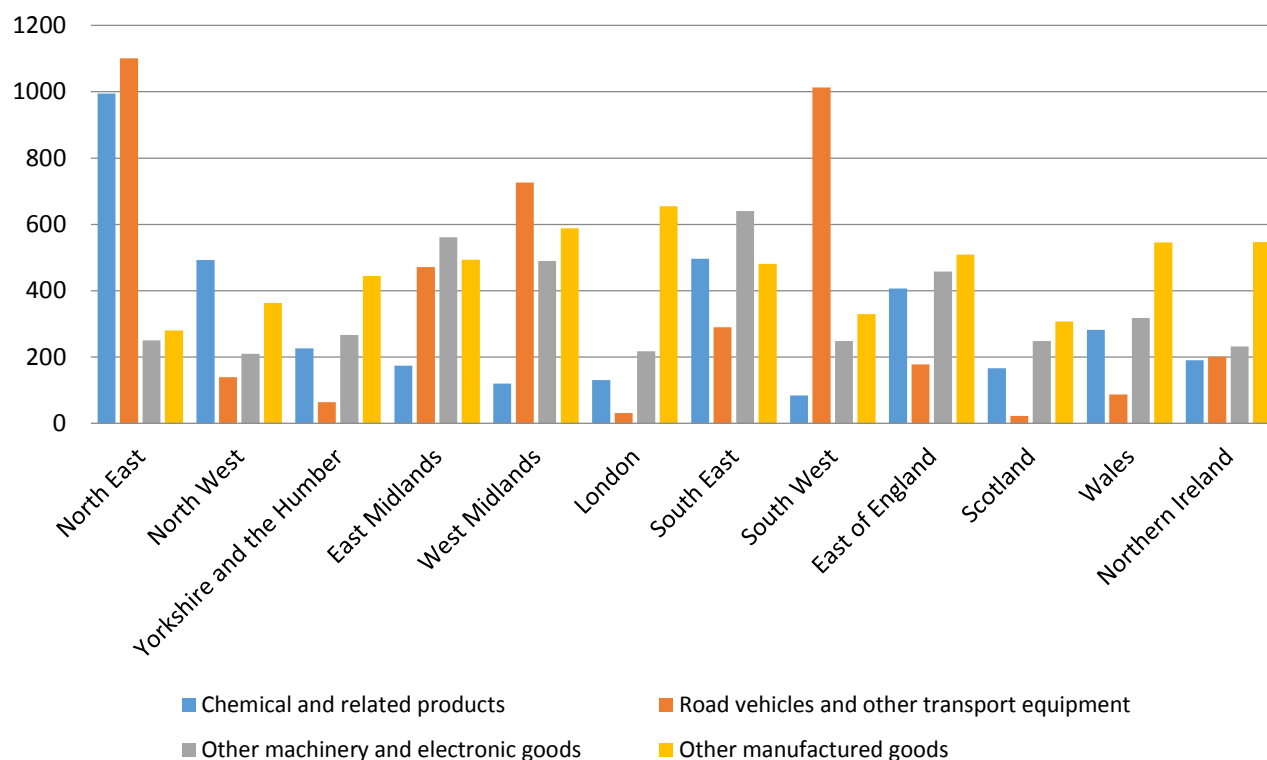


Fig 6. Per capita value of exports to EU by sector and region, 2015
(selected goods, £m)



Analysis

- It is clear that considering the differential trade relationships between the UK's regions and nations and the EU is relevant to understanding the implications of Brexit for the UK economy, given that the geographical differences in this regard are fairly substantial.
- The Southern English regions and the North West export most goods in absolute terms to the EU, but paradoxically those regions that tend to export fewer goods, such as the North East, South West and Northern Ireland, are more reliant on the EU insofar as EU countries are the destination of a greater proportion of their goods exports.
- The North East overwhelmingly exports chemicals and vehicles to the EU. Exports from the South West and West Midlands are also focused upon vehicles, and exports from the North West are focused upon chemicals. The chemical sector includes pharmaceuticals and goods such as pesticides and fertilisers, paints and plastics. That these are among the sectors with the highest tariffs for imports into the EU means these regions will be very negatively affected, other things being equal, were imports from the UK to be treated in line with those from other non-EU countries in the event of Brexit.
- It is also worth reiterating here the North East's goods trade surplus with the EU. For most Southern English regions, imports from the EU dwarf exports. But the Northern regions and the devolved nations have a more balanced trade relationship with the EU.
- Of course, this does not mean that the arguments made by many in favour of Brexit, that is, that a more liberal regulatory environment would over the long term improve the productivity of the UK economy (and therefore, other things being equal, its trade performance), can be discounted.
- It should also be noted that goods trade is not a perfect proxy for the degree of economic integration between UK regions and the EU, for two main reasons. Firstly, many regional firms will operate within *global* production networks involving both EU and non-EU firms. Secondly, an understanding of regional differences in services trade with the EU would be necessary to better understand trade relationships in this regard – yet data on services exports by region are not collected.
- We know that the UK has a services trade surplus of almost £90 billion, including a surplus on services trade with the EU of over £35 billion. If services trade were to become more restrictive in the event of Brexit, the UK's overall trade balance could further deteriorate, at least in the short term, because, unlike trade in goods, a lower volume of services exports to the EU would heavily outweigh the reduction in services imports.
- Given the concentration of high-value (and more tradeable) services such as financial services, and business and legal services, in London and the South East, we should be careful not to assume from data on trade in goods alone that these regions would be relatively unaffected by any restrictions on trade with the EU.

Conclusion

It is regrettable that the regional dimension of the UK/EU relationship has received relatively little attention in the public debate around the implications of 'Brexit', and even more so that the data available on the trade relationships between UK regions and the EU is incomplete. The evidence on trade in goods examined here confirms that the notion of whether the UK will be 'better off' or 'worse off' as a result of voting to exit or remain within the EU is too simplistic, due to significant differences between the UK's regions and nations in terms of their goods trade relationship with the rest of the EU. In particular, Northern Ireland (the UK's poorest region), the North East (England's poorest region) and the South West (Southern England's poorest region) appear to be the most dependent on the ability of the UK to trade in goods with relatively few restrictions with other EU countries. Of course, the fact that these regions are already among the UK's most disadvantaged suggests that the economic status quo does not work in their favour. However, it is highly uncertain that a greater imperative for the UK overall to develop trade relationships with the rest of the world, if trade with Europe becomes more restrictive, is a path to greater prosperity for these regions.

Sources

- The trade data in this Brief are from the HMRC Regional Trade Statistics series (the Q4 2015 update), which is available at <https://www.uktradeinfo.com/Statistics/RTS/Pages/default.aspx>. Data on exports by sector has been partially recategorised to allow for comparison between regions.
- The population data, used to calculate per capita results, are taken from the ONS annual population estimates series, which is available at <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates>.
- Information on services trade is available in the ONS Pink Book, which is available at <http://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/compendium/unitedkingdombalanceofpaymentsthepinkbook/2015-10-30>.

Annex 1: Data on trade in goods by region, 2012-2015

	2012	2013	2014	2015
Value of exports to EU (£m)				
North East	6502	6114	6989	7002
North West	16340	14506	13474	11579
Yorkshire and The Humber	8675	8712	8456	7785
East Midlands	8372	9242	8883	8685
West Midlands	10280	11120	11529	12036
East of England	17008	15902	13958	11411
London	14759	13485	12292	12727
South East	21076	21354	19899	19004
South West	7465	8015	8180	9718
Scotland	5929	6563	5761	5024
Wales	8162	8714	8364	6720
Northern Ireland	3236	3528	3630	3463
Proportion of exports going to EU (%)				
North East	50	53	56	58
North West	54	52	52	47
Yorkshire and The Humber	53	50	49	47
East Midlands	42	43	45	45
West Midlands	45	41	40	42
East of England	60	59	56	54
London	42	41	43	39
South East	48	51	50	47
South West	59	59	59	64
Scotland	45	44	43	41
Wales	41	42	43	38
Northern Ireland	57	58	61	55
Per capita value of exports to EU (£)				
North East	2499	2342	2669	2667
North West	2307	2042	1889	1618
Yorkshire and The Humber	1632	1632	1578	1445
East Midlands	1833	2010	1916	1866
West Midlands	1822	1960	2018	2100
East of England	2879	2671	2319	1888
London	1776	1602	1440	1479
South East	2416	2429	2242	2132
South West	1398	1490	1508	1785
Scotland	1536	1636	1564	1255
Wales	1929	2129	1863	1615
Northern Ireland	1775	1928	1972	1875
Trade balance with EU (£m)				
North East	1937	1892	2689	1830
North West	-390	-2795	-1872	-1834
Yorkshire and The Humber	-1226	-1494	-3373	-4304
East Midlands	-1756	-1880	-2052	-2029
West Midlands	-7437	-7596	-8510	-7980
East of England	-12831	-14204	-15719	-18175
London	-11832	-13011	-15307	-15944
South East	-31122	-32985	-36094	-38976
South West	372	265	554	1394
Scotland	2548	3071	2018	1474
Wales	3045	3362	3186	1825
Northern Ireland	-38	243	239	114

Annex II: Data on trade in goods by region and sector, 2015

	Chemical and related products	Road vehicles and other transport equipment	Other machinery and electronic goods	Other manufacturing
Value of exports to EU by sector (selected, £m)				
North East	2612	2891	656	736
North West	3523	997	1499	2597
Yorkshire and The Humber	1217	344	1436	2395
East Midlands	809	2193	2611	2295
West Midlands	689	4164	2809	3372
East of England	1121	266	1872	5635
London	4427	2582	5704	4290
South East	458	5515	1352	1792
South West	2458	1076	2769	3075
Scotland	892	120	1332	1648
Wales	877	270	990	1697
Northern Ireland	351	372	429	1009
Per capita value of exports to EU by sector (selected, £)				
North East	995	1101	250	280
North West	492	139	209	363
Yorkshire and The Humber	226	64	267	445
East Midlands	174	471	561	493
West Midlands	120	726	490	588
East of England	130	31	218	655
London	497	290	640	481
South East	84	1013	248	329
South West	407	178	458	509
Scotland	167	22	249	308
Wales	282	87	318	546
Northern Ireland	190	201	232	546



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